



STATE BOARD OF EQUALIZATION  
PROPERTY TAXES DEPARTMENT  
450 N STREET, MIC: 63, SACRAMENTO, CALIFORNIA  
(PO BOX 942879, SACRAMENTO, CALIFORNIA 94279-0063)  
TELEPHONE (916) 445-1516  
FAX (916) 323-8765

JOHAN KLEHS  
First District, Hayward

DEAN F. ANDAL  
Second District, Stockton

CLAUDE PARRISH  
Third District, Torrance

JOHN CHIANG  
Fourth District, Los Angeles

KATHLEEN CONNELL  
Controller, Sacramento

E. L. SORENSEN, JR.  
Executive Director

September 23, 1999

No. 99/53

TO COUNTY ASSESSORS:

APPLICATION OF INFLATIONARY FACTORING TO BASE YEAR VALUES

Article XIII A of the California Constitution generally provides that a base year value is established when real property undergoes a change in ownership or when new construction occurs. Following the year a base year value is first enrolled, the value shall be factored annually for inflation. If the date of change in ownership or completion of new construction occurs between the lien date and June 30, the new base year must be adjusted by an inflation factor on the ensuing January 1. The inflation factor may not exceed 2 percent.

The purpose of this letter is to re-emphasize that the application of the annual inflation factor to base year values is mandatory. Section 51 reads in pertinent part:

(a) For purposes of subdivision (b) of Section 2 of Article XIII A of the California Constitution, for each lien date after the lien date in which the base year value is determined pursuant to Section 110.1, the taxable value of real property *shall*, except as otherwise provided in subdivision (b) or (c), be the lesser of:

(1) Its base year value, compounded annually since the base year by an inflation factor, which *shall* be determined as follows:

...(C) For any assessment year commencing on or after January 1, 1998, the inflation factor *shall* be the percentage change, rounded to the nearest one-thousandth of 1 percent, from October of the prior fiscal year to October of the current fiscal year in the California Consumer Price Index for all items, as determined by the California Department of Industrial Relations.

(D) In no event *shall* the percentage increase for any assessment year determined pursuant to subparagraph (A), (B), or (C) exceed 2 percent of the prior year's value. [Emphasis added.]

Under these provisions, the inflation factor is based on the California Consumer Price Index (CCPI) statewide, not a localized consumer price index or any other local or statewide economic factors. Further, the factoring of the base year value is applied annually regardless of whether the base year value is actually enrolled. The only instances in which the base year value would not be adjusted for inflation would be where the percentage change in the CCPI was zero or less than zero.

In conclusion, section 51 provides that base year values determined under section 110.1 shall be compounded annually by an inflation factor. The inflation factor is the annual percentage change in the CCPI for all items, as determined by the California Department of Industrial Relations. For any assessment year commencing on or after January 1, 1998, this percentage change is measured from October of the prior fiscal year to October of the current fiscal year, rounded to the nearest one-thousandth of 1 percent. The percentage increase for any assessment year shall not exceed 2 percent of the prior year's value.

Sincerely,

/s/ Richard C. Johnson

Richard C. Johnson  
Deputy Director  
Property Taxes Department

RCJ:grs:cdg